Chilton's

MARCH 1980

TRANSPORTATION

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FTZs Find More Shipper Appeal

Transportation Legislation Update

Squibb's New Order Entry System

Transportation Cost Control: The Key to Successful Exporting

Shippers' Casebook: Productivity Ideas in Action

Freight Forwarders The Export Experts

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The Cover: *Dockside, the point where U.S. and international trade cross.*

Photo courtesy of the Port Authority of New York and New Jersey.

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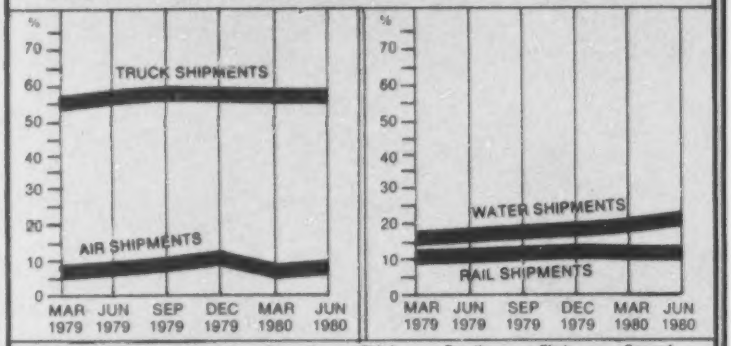


CATEGORY	Second Quarter '79	Third Quarter '79	Fourth Quarter '79	First Quarter '80	Second Quarter '80
Truck Shipments	1.5%	1.1%	1.1%	-3.0%	0.5%
Air Shipments	0.4%	0.5%	0.6%	-1.1%	0.1%
Water Shipments	0.6%	0.2%	0.2%	0.1%	1.6%
Rail Shipments	0.2%	0.3%	0.3%	-2.1%	0.1%

The outlook for the second quarter of 1980 is mixed. Economists have not yet agreed on when the recession will begin. Inflation is still going strong, with consumer prices rising at an annual rate of 13.3%.

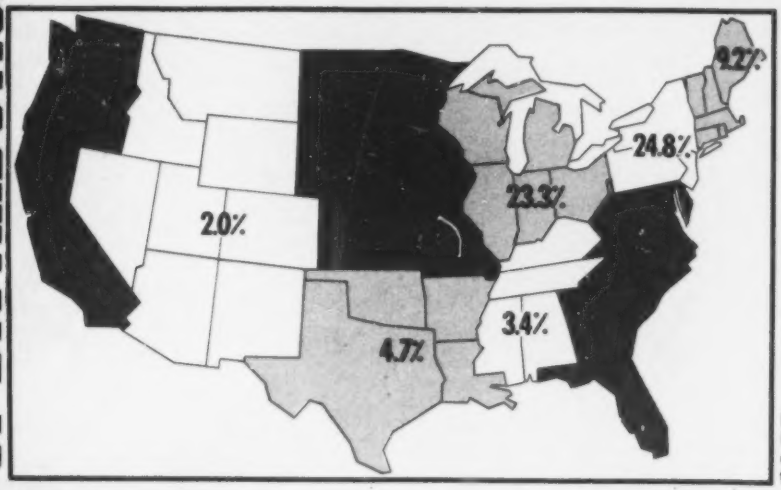
The Federal Reserve Board's attempt to slow the economy has not yet succeeded, forcing the FRB to raise the discount rate to an all-time high of 13%. The hike has resulted in the prime interest rate increasing to a record 15¾%.

Many distribution managers surveyed in this quarter's DISTRIBUTION INDEX expressed confusion over what to expect in 1980. One distribution manager stated, "Everybody in my company forecasts gloom, but you would not know it by the way our customers are ordering. It's gangbusters."

The DISTRIBUTION INDEX forecasts a slight rise in activity for the second quarter of 1980. This is reflected in the transportation sector, with shippers reporting a .5% increase in rail shipments over the first quarter.

Air shipments will not increase appreciably either, rising by only .1%. Truck shipments are expected to rise by only 1.6% in the second quarter, with water shipments increasing only very slightly.

As one distribution manager stated, "We don't forecast any more. We just react to events and take each day as it comes."



FREIGHT BILL (of 790 ocean freight users)	
Total, all modes	
Under $400,000	12.7%
$400,000 to $699,999	9.6%
$699,999 to $999,999	9.4%
$1 million to $5 million	32.0%
$5 million to $9 million	9.9%
$ 9 million and up	22.9%
No answer	3.0%

Map shows the distribution geographic of the 790 survey respondents who qualify as "heavy users" of ocean transportation for shipping.

HOW SHIPPERS SPEND THEIR FREIGHT DOLLAR

American shippers go down to the sea in droves, according to this magazine's survey of distribution executives and managers.

Of the 2,246 respondents to DISTRIBUTION's poll of 24,000 distribution professionals, more than a third report that they are heavy users of ocean freight. The bulk of these ocean freight users work for manufacturing companies which have hefty total freight bills, and substantial segments of those freight bills are paid out for ocean shipping.

The ocean freight shipper is distinctive in many ways, our survey indicates. Let's take a look at the "heavy" user of ocean freight.

For the survey, we defined "heavy ocean freight user" as any shipper who spends 4 percent or more of his freight dollar on ocean shipping. Our survey netted 790 respondents—35 percent of all respondents—who fit into this category.

Not surprisingly, the majority of these shippers are located in the industrial Mid-Atlantic states and the agricultural and industrial shipping centers of the Midwest. As the accompanying map illustrates, 24.8 percent of the ocean freight users are located in shipping points in New York, Pennsylvania and New Jersey. Another 23.3 percent are found in the Midwestern states adjacent to the Great Lakes.

Of the 790 heavy users of ocean freight, our survey found that the average user allocates 16.2 percent of his total freight bill to ocean shipping.

The size of these shippers' total freight bills is illustrated in the chart on this page. The largest single group—shippers with total freight bills ranging from $1 million to $5 million—comprise 32 percent of the users sampled. The second largest group is made up of the biggest shippers, in terms of total freight bill: Some 22.9 percent of all heavy users of ocean freight reported that their total freight bills were in excess of $9 million annually.

Third largest were shippers with total freight bills of less than $400,000. Interestingly, 12.7 percent of our sample fit into this category. These smaller shippers utilize ocean freight more than some of their bigger brothers, namely those with freight bills ranging from $400,000 to $700,000 and from $700,000 to $1 million. Indeed, the smallest shippers, in terms of total freight bill, outranked companies with freight bills totaling between $5 million and $9 million.

What kinds of companies are these? Our survey shows that they represent a broad cross section of U.S. industry. The largest categories, by type of product or service, are makers of chemicals and allied products (15.3 percent), electrical and electronic machinery (14.4 percent), non-electrical machinery (12.4 percent) and food and kindred products (10.8 percent).

Of those 790 heavy users of ocean freight surveyed, 63 percent are directly responsible for purchasing freight forwarders' services. Only 5.4 percent said their companies do not purchase freight forwarders' services. The remaining 31.6 percent said other departments handle such purchasing.

Similarly, customs brokers are heavily relied upon by the respondents. Some 49.2 percent of those surveyed are directly responsible for securing the services of customs brokers. Only 4.3 percent of the respondents say their companies do not use customs brokers.

The heavy users of ocean freight surveyed spend an average of approximately $500,000 each year on ocean freight, our survey indicates.

As large as this expenditure is, it is not the respondents' biggest transportation cost. While these heavy users of ocean freight spent an average 16.20 percent of their freight dollar on ocean shipping, they spent more on rail (20.2 percent of their total freight bill), and still more than that on regulated common carriage (56.38 percent). The same group spends an average of 11 percent of their freight bill on air freight.

Statistically speaking, therefore, the "average" heavy user of ocean freight is a chemical company, located on the Ohio-Pennsylvania border, with a total freight bill of $3 million annually, of which $490,000 is spent on ocean freight. □

NOTE

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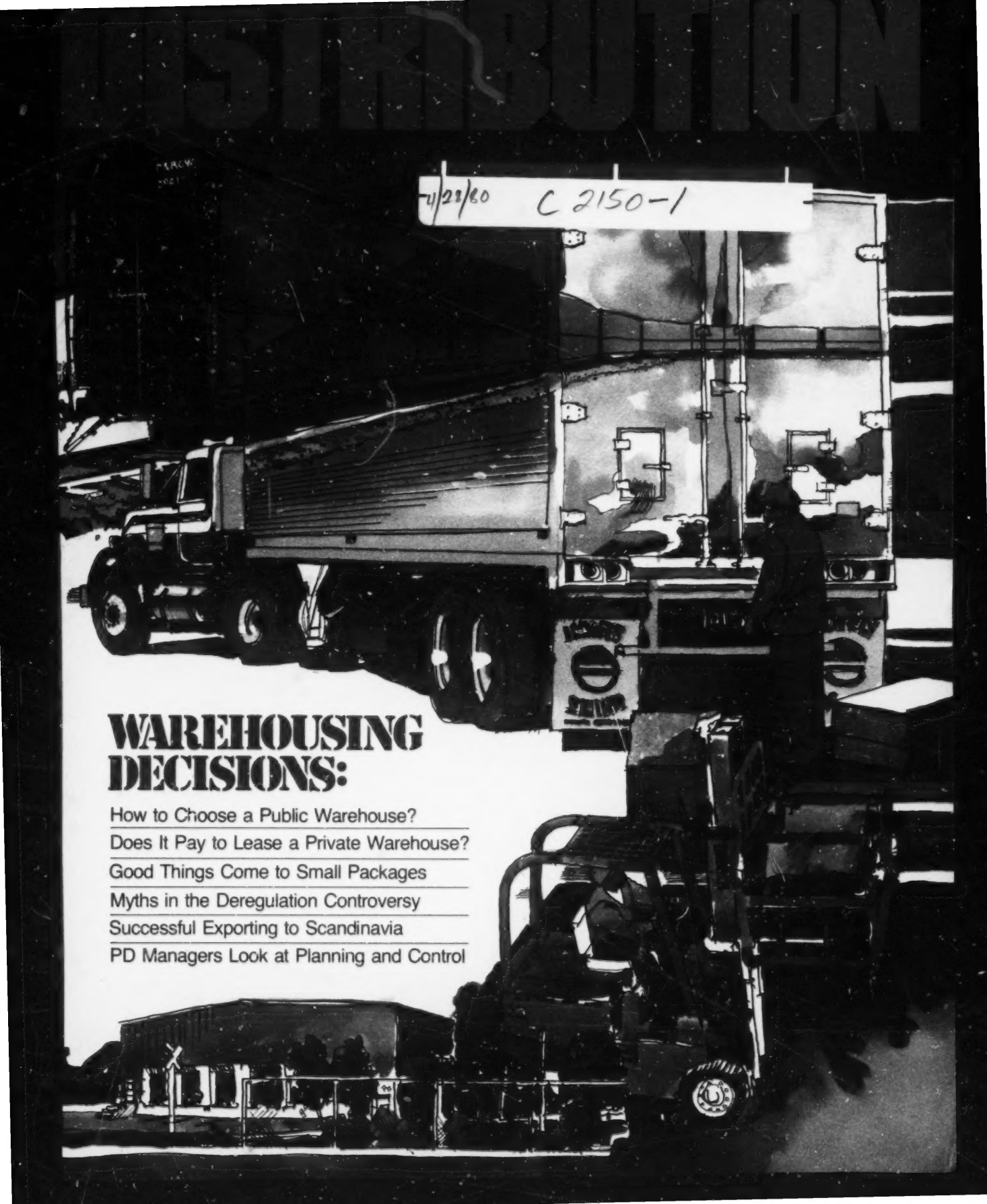

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Good Things Come to Small Packages

Myths in the Deregulation Controversy

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The Cover: *The hubbub of activity in a warehouse is echoed by the intense activity behind choosing a public warehouse or in deciding whether to lease or to purchase a public warehouse.*

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